

LITTLE SUSITNA CONSTRUCTION

GENERAL CONTRACTOR AA8966

ELECTRICAL CONTRACTOR AA1155 (IBEW Members, Inside & Outside Work)

MECHANICAL CONTRACTOR AA0213

ARCHITECTS & PLANNERS

CONSULTING ENGINEERS

CONSTRUCTION MANAGEMENT

An SBA SDB Firm

December 18, 2007

Mr. Christopher Rutz
AGIA License Office
550 West 7th Avenue, Suite 1820
Anchorage, AK 99501

RE: Letters of December 12, 2007 and December 17, 2007

Dear Mr. Rutz:

Little Susitna Construction Company, Inc. (LSCC) is pleased to respond to the request for additional clarifying information requested in an attachment to your letter dated December 12, 2007 and your letter dated December 17, 2007. It is our understanding this additional clarifying information is being made under the authority of AS 43.90.140(b) and Section 1.13.10 of the RFA.

The answers and additional information is being provided by attachment to this letter.

Sincerely,

Dominic S.F. Lee, P.E.
President

Attachments

1. *RFA Sections 2.8.1 and 2.8.2. Require a detailed description of the applicant and all entities participating with the applicant in the application and proposed project, and require that applicant submit appropriate documentation evidencing its financial resources and capabilities to develop and execute and proposed project. In accordance with Sections 2.8.1 and 2.8.2:*

a. Please clarify the roles that each division of Sinopec (that Applicant has identified on page 3 of the Application) and the People's Republic of China have with respect to the project.

1a. The three divisions of Sinopec that are submitting as a subcontractor to Little Susitna Construction Company, Inc. (LSCC) are all located in Puyang City, Henan, China. These three divisions are responsible for the following areas: 1) engineering design; 2) oil and gas field exploration, construction of pipeline, LNG plants, service, production and transportation; 3) the International division is responsible for any projects outside of the boundaries of China.

The three divisions have over 100,000 employees and operate in China and ten other countries, including the Sudan, where Sinopec has 10 explorational drilling rigs, 450 laborers in an oil field involving 20 major oil companies from many countries other than the United States. Following is a more in-depth description of the capabilities and responsibilities each of the three (3) divisions possess and will assume if selected as a licensee for the Alaskans First Gas Pipeline project.

1) Sinopec ZYEC is the design institution of Sinopec Engineering Company. ZYEC has all the government licenses and certifications to design oil and gas pipelines,

LNG plants, and major civil engineering projects. Sinopec ZYEC has over 400 licensed engineers and many hundreds of technicians, and supporting staff to ensure a quality engineering design. ZYEC has been responsible for the complete design of all of Sinopec's oil and gas projects since 1980 (please refer to the Sinopec ZYEC company brochure provided in Appendix H of our proposal). The role of Sinopec ZYEC in the "Alaskans First Gas Pipeline" project will be to provide the engineering design together with Alaskan and U.S. engineering firms to be selected at a later date. Sinopec ZYEC recent engineering experience includes the 2,200 kilometer 36" gas pipeline in China that runs from Sichuan to Shanghai. See Exhibit No. 1 (excerpt of development plan organization chart from pages 61 and 62 of the RFA).

2) Sinopec ZPEB is responsible for the construction and operation of Sinopec oil and gas fields in China. It also builds gas pipelines, oil pipelines, LNG facilities for Sinopec in China and overseas. Currently, Sinopec ZPEB operates in about ten countries, including operating 10 exploratory drilling rigs in Sudan with about 450 Chinese laborers. Sinopec does not own any oil and gas leases in Sudan, their only role in Sudan is to provide the equipment and laborers to drill exploratory wells under contract for the 20 major oil companies from around the world (other than the U.S.). These exploratory rigs could be relocated out of Sudan after the completion of those contracts. The role of Sinopec ZPEB in the "Alaskans First Gas Pipeline" project will be to serve as LSCC's general contractor for the gas pipeline and LNG facilities. Sinopec ZPEB will hire Alaska-qualified subcontractors to do the actual construction of the pipeline project and they will purchase the steel pipes, LNG equipment for the project

and oversee the construction from beginning to finish. If there is a viable LNG market in the USA for North Slope gas, they will share the LNG product with the USA market.

3) Sinopec ZPEB International Division is the division who has authority to approve or disapprove any Sinopec ZPEB international activities. All overseas oil and gas projects must be approved by this division. It is Sinopec's own bureau that oversees Sinopec International projects.

For financial resources and capabilities to develop and execute the proposed project, Sinopec is a publically traded company on the New York Stock Exchange with a Market Capitalization of U.S. \$138 billion. 2006 revenues were \$155 billion with a \$9.2 billion profit. Crude oil production of 790,000 bpd and 767 MMCF/D refining throughput is 3.1 MMBPD. Sinopec is comparable to Conoco Phillips in size. The company is 76% owned by the People's Republic of China, and the government has the final say.

In my opinion, one of the reasons Sinopec wants to participate in this project is because the U.S. has been buying billions of dollars of goods from China and China has over \$1.3 trillion of U.S. dollars in U.S. government bonds and treasury bills. The Chinese government just wants to buy something significant back from the USA in order to have robust two-way trading. Energy is what China needs -- besides airplanes from Boeing. Sinopec purchasing LNG from Alaska will reduce the USA's trade deficit with China. At the current LNG price of \$10 per 1,000,000 BTU, it is \$15.29 billion in trade per year. In the 30 year life of the project, this would bring a \$458.9 billion trade surplus to the USA.

I did not have any contact with the government of the People's Republic of China. I only went to China to look for a subconsultant and subcontractor who has the gas pipeline experience and financial resources needed for a project of the magnitude of the Alaskans First Gas Pipeline. I came home from China with a subcontractor with both the experience and financial resources needed, plus I got Alaska and the U.S. a financially strong buyer for the gas.

b. Please clarify what each division of Sinopec and the People's Republic of China are committing to provide to LSCC with regard to the financial, technical and other resources necessary to fulfill the commitments made by LSCC in the Application.

- 1b. I met with each of the above-mentioned three divisions of Sinopec for five days at their Puyang City headquarters and got their commitment in the form of a teaming agreement and letter of intent to buy Alaska gas – this is much better than any verbal promises from Wall Street Venture Capitalists or risk-adverse pension plans. These documents were previously provided in Appendix C of the application and I am also enclosing a copy of those documents for your review (see Exhibit No 2).

c. Please provide a detailed description of each entity referenced in the Application with whom the Applicant has a written commitment currently in effect and provide a copy of the written commitments.

- 1c. The teaming agreement was approved by Sinopec ZPEB International – a step that is a must for Sinopec ZPEB to do any overseas project.

The letter of intent to buy 4 BCF/D of gas or LNG product was approved by Sinopec ZPEB headquarters at Puyang City, Henan PRC. Copies of the teaming

agreement and letter of intent are enclosed and can also be found in Appendix C of our proposal. The original documents with original signatures were submitted to the AGIA licensing office in a manilla envelope along with our proposal application.

I did not have any contact officials with the government of the People's Republic of China; however, Sinopec has notified their board of directors (76% of the members of this board are government officials) about this project and received permission execute the teaming agreement and letter of intent.

2. *RFA Section 2.9, quoting AS 43.90.130(20), requires the Applicant to “demonstrate the readiness, financial resources and technical ability to perform the activities specified in the application by describing the applicant’s history of compliance with safety, health, and environmental requirements, the ability to follow a detailed work plan and timeline, and the ability to operate within an associated budget.” Please identify all of the Sections and Appendices of the Application that contain data or information required by RFA Sections 2.9.1, 2.9.2 and 2.9.3, and provide a detailed explanation of how the information relates to the project described in the Application.*

2. LSCC has 28 years of construction and engineering experience. All of our projects complied with safety, health and environmental regulations. For 28 years LSCC has demonstrated our ability to follow a detailed work plan and timeline and the ability to operate within a prescribed budget.

LSCC has performed environmental remediation work such as the PCB and Lead Abatement project at the federal building in Juneau, Alaska. LSCC submitted various types of plans for that project such as the Accident Prevention Plan, the PCB/Lead

Containing Paint Abatement & PCB/Lead Mitigation plans (consisting of a site-specific Work Plan, Air Monitoring Plan, Respiratory Protection Program), Fugitive & Silica Dust Control Procedures, and Asbestos Abatement Procedures. We followed these plans for a successful completion of the project (copies of the plans are provided in Exhibits 3 thru 6). LSCC performed a soil remediation project at Fort Richardson for the Army Corps of Engineers wherein we followed the government-approved Quality Assurance/Quality Control plans submitted for safety, health, and environmental regulations (copy provided as Exhibit 7). LSCC has also performed some roof replacement work for the State of Alaska vocational and technical training facility in Seward (AVTEC), Kivalina School Roof replacement and Bethel Fire Station Roof Damage Emergency Repair. LSCC had to follow stringent health, safety and environmental protocols in order to comply with the strenuous OSHA rules for worker's safety and health for roof projects.

LSCC's 28 years experience successfully designing, building, managing, adhering to construction schedules and budgets, as well as following federal, state, and local regulations applies directly to this project by virtue of our continued success. While LSCC may be a small firm financially in terms of profit, our experience involves projects with budgets ranging from thousands of dollars to tens of millions of dollars such as during our project management contract to provide construction managers for \$1.5 billion in capital improvements projects for the U.S. Coast Guard, Facilities Design and Construction Center (FD&CC) Pacific (located in Seattle, WA). This projects involved all types of construction (architectural, mechanical, electrical, hydroelectric,

environmental).

LSCC's project management experience with the U.S. Coast Guard, FD&CC Pacific, is a perfect example of how LSCC has demonstrated our ability to expand our resources to fit the needs of a project. Our contract with the USCG spanned 10 years wherein LSCC provided construction managers for multiple projects across the west coast, Alaska and Hawaii, and eventually across the nation. As the number and different types of projects grew, LSCC hired personnel who had the qualifications to manage the next project. When the USCG decided to relocate their East Coast operations off Governor's Island in New York to several locations in New York, New Jersey and South Carolina, FD&CC Atlantic called up FD&CC Pacific to handle this high profile relocation project due to the high success rate LSCC had been providing to FD&CC Pacific. The timing element of this project was extremely critical as any delay in the relocation would cost the USCG tens of thousands of dollars per day. LSCC assembled a team of project managers with expertise in each of type of facility being relocated and coordinated through the project lead, Dennis Parker, AIA (his resume was provided in Appendix F of the application). Although many construction challenges were encountered, the project was kept on schedule and the relocation was accomplished on time and under budget.

LSCC utilizes the same time sensitive and cost conscious management practices on our small projects as our large projects, just on a different scale. The LSCC management team is able to adapt to any size project and is prepared to obtain the needed manpower with the expertise needed for this project. This ability was demonstrated

beautifully in the fact that we obtained the expertise and financial resources of Sinopec to join us on the Alaskans First Gas Pipeline project.

In addition to LSCC's ability to successfully design, build or manage any size project, our organization brings a unique experience that no other organization can offer – and that is the depth and experience of having already spent 28 years working in the harsh Alaskan arctic environment and interacting with the Alaskan people. LSCC understands the dynamics of providing state-of-the art facilities to the varying environments and communities Alaska has to offer between Prudhoe Bay and Valdez, as well as across the rest of the state. To assist your understanding of this claim of our unique experience, following is a listing of some of the projects LSCC has completed in Alaska. LSCC's North Slope engineering experience includes assisting ARCO Alaska (now Conoco Phillips) to develop the Kuparuk Oil field, projects included the medical and dental clinic, communications building and the 60 feet of microwave tower for oil field control; Kuparuk administration building, warehouse, fire truck stations, a section of the haul road inside Prudhoe Bay, Prudhoe Bay Main Construction Camp Upgrade (MCC), electrical power plant upgrade, and four large warehouse foundation repair projects. LSCC also did the mechanical and electrical engineering design for the \$300 million City of Barrow underground utilidor project which provided all utilities for the city. Other projects completed in the North Slope villages include Pt. Lay, Barrow, and Kotzebue airport runway lighting; Point Hope School swimming pool renovation; Kotzebue NAPA building; Barrow elementary school code upgrade; painting of Anaktuvuk Pass warehouse; Kaktovik electrical power plant study; and Barrow U.S. Post

Office remodeling. LSCC has performed over 500 projects in over 100 Alaska communities. Some of these same projects can be found in our application in Appendix F where LSCC's history and experience is located.

Finally, LSCC is prepared to take on the "Alaskans First Gas Pipeline" project. Any company's next project that is bigger than their last is a first for them. When considering projects for the development of services for Alaska, if the villages or State of Alaska had waited for a company came along that had the exact previous experience as the project they were considering, Alaska would still be in the dark ages. Practically every construction project in Alaska is unique. Successful companies do the research for their next project, plan, assemble all the technical, financial, and manpower resources needed, and work like crazy to bring the project to fruition. LSCC looks forward to doing just that for Alaska and the United States.

3. *Application Section 2.2.4.4 indicates that Appliance will apply to the Regulatory Commission of Alaska for a certificate of public convenience and necessity. In that regard, RFA Sections 2.2.3.4 and 2.2.3.5 required Applicant to describe all services it proposes to offer along with a description of the material terms of each service and a good faith estimate of recourse rates that the Applicant proposes for each service. Application Section 2.2.3.5 appears to suggest that no third-party tariffs will be offered for gas that will be exported, but then lists a series of rates. Please identify all of the Sections and appendices of the Application that contain data or information required by RFA Sections 2.2.3.4 and 2.2.35, and provide a detailed explanation of how the information relates to the project described in the Application.*

3. In section 2.2.4.4 LSCC states we will apply to the Regulatory Commission of Alaska for a certificate of public convenience and necessity. LSCC is committed to this project. LSCC will receive clean pipeline quality gas from the producers on the North Slope and elsewhere along the pipeline to feed the pipeline. LSCC will supply this gas to its own NGL and LNG plants for making LNG products for shipment to China. LSCC will design and build a marine terminal to unload the LNG into a LNG ship. The tariff LSCC asked for are 1) Repaying the debt service of the gas pipeline, NGL and LNG plants and the marine terminal; 2) Cost to operate the pipeline and facilities; 3) the fuel cost to run the pipeline compressor stations and the refrigeration units in the LNG plants; 4) property tax costs; 5) other state and federal taxes; 6) a reasonable profit; and 7) the cost of equipment repair and replacement. All these are legal tariff rates and fees LSCC and the investors need to have to finance and operate this project. These are good faith estimates based on today's dollars, actual rates will be adjusted according to 1) the dollar's value vs. other world currencies; 2) the inflation of materials, labor and transportation cost; 3) the interest rate that finances the project; 4) the future price of LNG, the shipping costs, and final project scope; 5) taxes are unknown at this time.

In this project, the rate does not include any third party tariffs. However, LSCC does not know exactly how much the North Slope producers will ask FERC, if at all, for a tariff for a "gas treatment plant" (GTP) construction and operating cost, or if they will just include the cost of GTP into their wellhead price. LSCC estimates that the GTP fee will not exceed \$0.50/MCF and it may be considerably less, based on the services performed.

LSCC's proposal is to buy gas on the North Slope, transport it to Valdez, liquify it and load it on to ships. LSCC will also offer to transport gas instate from identified intake and delivery points if shippers come forward at the open season. If third parties approach LSCC with a desire to transport gas to Valdez for export, LSCC will offer a pipeline transportation and liquefaction service to those third parties. The good faith estimates shown on page 74 of the application and discussed in Sections 2.2.3.4 and 2.2.3.5 and indicative estimated rates that could be offered to third parties for these services if any third party "export-gas" services are desired. It is not LSCC's intent to intentionally exclude anyone from the project.

The rate structures and good-faith estimates of tariffs and fees were included in the RFA for several reasons. First, sections 2.2.3.5 and 2.2.3.4 request specific information. Second, these tariffs and fees are necessary for the state to evaluate LSCC's proposal, i.e., estimate the NPV of the project as described in the RFA. Third, these tariffs and fees can be evaluated by third parties so that these third parties can evaluate the proposal.

The tariff and fee structure is also provided so in-state shippers and end-users can evaluate the proposal.

Users will only be charged for the services they use and the pipeline tariff is mileage sensitive.

Our proposal deals with moving the gas to Valdez for processing and distribution to Alaska communities and businesses.

The idea of transporting gas to the Mid-West via a pipeline makes little economic

sense because Alaska would be subsidizing the movement of gas, because for every 100 miles of pipeline, you lose 15% of the gas pressure required. It takes another 4% to 5% of the gas to restore the pressure for the next 100 miles. The estimated length of a pipeline from Alaska to the Mid-West is 3,600 miles which would be a loss of 67% of the gas to move the remaining 33% of the gas that distance. Based on the current cost of gas in Chicago (Henry Hub selling price of \$8.91 per MCF) it would cost Alaska \$16.04 to get \$8.91 worth of gas from Alaska to Chicago. It is unlikely that Alaska can regain the cost of the lost gas in the tariff (final pricing).

4. *RFA Sections 2.2.3.2 and 2.2.4.3 require an applicant to set forth dates by which the applicant will commit to (a) conclude a binding open season, and (b) submit applications to FERC for pre-filing approval and certificate authorization. Please clarify the date certain that LSCC has proposed for (a) concluding a binding open season and (b) submitting applications to FERC for pre-filing approval and certificate authorization.*

4. Section 2.2.3.2 plan for RCA in-state open season and Section 2.2.4.3 Commitment for FERC certified project are two commitments LSCC has committed to. LSCC is committed to seek a federal pipeline certificate even if the North Slope oil and gas producers initially decline to use the pipeline. LSCC has no oil connections with the current North Slope oil and gas producers, ExxonMobil, B.P. and Conoco Phillips.

In our plans for open season, LSCC will follow all the FERC and RCA requirements, including 1) filing open season plans with FERC and RCA; 2) notifying all North Slope gas producers and potential end users; 3) actively talking to producers and end users to commit to put gas into and to buy gas from the pipeline. With our plan the

gas producers can make billions by committing the gas on the pipeline (see page 143 of LSCC's proposal); (a) LSCC concluded the date of open season is likely less than 36 months, LSCC will conclude the binding open season by the end of 36 months or no later than June 30, 2011; (b) LSCC will submit to FERC applications for pre-filing approval and certification authorizations together with a notification of intent to commence open season and construction of an LNG export facility to FERC and RCA and the Federal Gas Pipeline Coordinator, Ms. Drue Pearce. The date will be 30 days minimum prior to the open season date.

If the AGIA license award is made after June 20, 2008 then the dates of the open seasons and notices to FERC and the RCA may be extended for the same time as the delay of the license award beyond June 30, 2008.

LSCC commits to timely make the submittals required under Section 2.2.4.3 of the RFA to the extent they are needed for the project outlined in LSCC's proposal, as determined by the FERC and the RCA.

LSCC also commits to timely make the necessary applications to the U.S. Department of Energy for an export license. This application will be made no later than June 30, 2011, and in all likelihood will be made much earlier. Again, this date is conditioned on the award of the AGIA license on or before June 30, 2008.

The Commissioner and the Governor must recognize that commitments to dates certain by LSCC are contingent on timely actions by the Administration, Governor, and the Alaska Legislature.

LSCC's proposal to export LNG to China does not diminish LSCC's intent to

serve local gas markets in Alaska. As called for in Section 2.2.3.9 of the RFA, LSCC is committed to serve local Alaska markets, both at initial startup of the pipeline and in the decades that follow. LSCC believes that the state can assist in serving Alaska's local needs through use of its royalty gas.

5. *Christopher Rutz of the AGIA office, via letter dated December 17, 2007, requested that LSCC clarify the declaration of public documents as proprietary (Appendix D).*

On the table of contents for the Alaskans First Gas Pipeline, LSCC inadvertently left the designation (Proprietary Information) for Appendix D. LSCC does not wish to declare our legal formation documentation proprietary (including Corporate Certification, Alaska Business License 149429, Alaska Business License 127170, General Contractor Registration #8966, and articles of Incorporation of Little Susitna Construction Company filed in 1984), which is why Appendix D was not summarized and provided in a redacted format. Please cross out the "(Proprietary Information)" on the Table of Contents page for Appendix D on any copies to be made public information.

Thank you for the opportunity to respond to the questions asked by the Commissioners of Revenue and Natural Resources of the State of Alaska. Please do not hesitate to contact us if any additional information is required.

Respectfully submitted by,

Dominic S.F. Lee, P.E.
President & CEO
Little Susitna Construction Company, Inc.

